

The Federal Reserve Bank's Implementation Guide for the FedCash® Services Custodial Inventory Program

The Federal Reserve Bank's Implementation Guide for the Custodial Inventory (CI) Program provides helpful information for organizations applying for a CI. This guide will serve as a roadmap to facilitate timely processing of CI applications, including providing various implementation resources to help make the process as efficient as possible. Below are high-level descriptions of each phase of the process, as well as information about how to expedite an application.

Policy Overview

Pursuant to the Federal Reserve Banks' Currency Recirculation Policy implemented on March 17, 2006, the Federal Reserve Banks have created a CI Program to help offset the opportunity costs associated with holding additional currency in depository institution (DI) vaults and to facilitate its recirculation. By participating in the CI Program, a DI will be allowed to hold inventory in its vaults, but on the books of a servicing Federal Reserve Bank. A DI may transfer into the CI four days of the site's average daily payments in \$10 and \$20 notes after satisfying the one day minimum holding requirement in \$10 and \$20 notes in the DI's books.¹

For more information about the policy revisions, please visit <https://www.frbservices.org/financial-services/cash/index.html>.

Eligibility

In order to be eligible to participate in the CI Program, an applicant must:

- Be a DI. Armored carrier companies can operate CIs on behalf of DIs as subcontractors, but may not enter into an agreement with the Federal Reserve as a CI Program participant.²

- Be financially sound and in compliance with banking laws and regulations, such as the Bank Secrecy Act and Anti-Money Laundering standards
- Meet a minimum volume threshold. A DI can demonstrate that the prospective CI site meets the minimum threshold by:
 1. Cross-shipping at least 200 bundles of \$10 and \$20 notes per week at the prospective CI site in the Federal Reserve Bank zone or sub-zone³
 2. Providing deposit and payment records for the vault at which the prospective CI would be located demonstrating that the DI recirculates at least 200 bundles of \$10 and \$20 notes weekly among the customers of that vault
 3. Demonstrating a combination of cross-shipping activity and recirculation among the DI's customers totaling at least 200 bundles of \$10 and \$20 notes in the Federal Reserve Bank zone or sub-zone⁴

In addition to meeting the recirculation threshold requirement, a potential CI site must comply with physical and operational security requirements to participate in the program.

¹ "Average daily payments" is the average dollar amount of combined \$10 and \$20 notes that a CI site paid to its customers (change orders), correspondent banks, and/or branches and the ATM network, during a prior business week, divided by five.

² Institutions that have outsourced their cash handling operations may apply for a CI at their outsourced facility, subject to the same requirements as would apply to their own vaults. The institution remains responsible for all obligations under the CI agreement. Additionally, the institution is responsible for ensuring the vendor operates the vault and the CI in accordance with the requirements of the agreement. The institution maintains responsibility for indemnifying the Federal Reserve Banks against any theft or loss.

³ Once the CI site is approved, the operator is expected to no longer cross-ship these deposits, but will instead begin using the CI to recirculate them.

⁴ Federal Reserve Banks have established "sub-zones" for large metropolitan areas that are located at a significant distance from the nearest Reserve Bank office. Deposits and orders by institutions with branches in the sub-zone will be assessed cross-shipping fees separately from the institution's activities in the rest of the zone.

Application Process

To apply for the CI Program, a DI must sign the CI Application Form and Agreement indicating the DI's agreement to the terms and conditions of Operating Circular 2 Appendix 1 (CI Program), and the CI Manual of Procedures (MOP).

Listed below are the steps that should be followed to facilitate the smooth and timely handling of the CI Application Form and Agreement. Additional resources are available at FRBservices.orgSM and at the end of this guide.

- STEP 1:

Complete the CI [Application Form and Agreement](#)

> Customer Action:

Read the [Operating Circular 2](#)

Read the [CI MOP](#)

- STEP 2:

Ensure an OAL is on file with the Federal Reserve. The CI Application Form and Agreement requires the name, title, and signature of a DI's official authorizer. The authorizer must be listed on the Official Authorization List (OAL) filed with the Federal Reserve Bank with which it maintains a Federal Reserve Bank account. A current OAL is critical to indicate which individuals are authorized to transact business on behalf of a DI. Applications will not be accepted if the Federal Reserve Banks cannot authenticate the signer of the application.

> Customer Action:

- Determine whether the person who will sign the CI Application Form and Agreement is on the DI's OAL. For help regarding the OAL, please visit the "Accounting Services" section on the Contact Us page on FRBservices.org
- If an OAL is not on file with the Federal Reserve Banks, one must be submitted in order for an application to be processed

- STEP 3:

Submit the CI [Application Form and Agreement](#) to the CCC.

> Customer Action:

- Completely fill out all sections of the CI Application Form and Agreement, including #5, which asks for a description of how using a CI will help support recirculation efforts

- STEP 4:

The Federal Reserve Bank will perform a completeness review.

> Customer Action:

- No action required by the DI

- STEP 5:

Once the CI Application Form and Agreement has passed a completeness review, the Federal Reserve Bank will conduct a financial safety and soundness review based on the latest examination results from the DI's federal banking supervisory agency.

> Customer Action:

- No action required by the DI

- STEP 6:

The servicing Federal Reserve Bank will schedule an on-site inspection of the prospective CI facility. The site inspection will confirm that the facility has the appropriate security and controls in place, as noted on the CI application, and will generally be completed within 30 calendar days of the Federal Reserve Bank contacting the DI to schedule the inspection. The DI must also provide four consecutive weeks of payments data in \$10 and \$20 notes, using a template that the Federal Reserve Bank provides to the DI when the on-site inspection is scheduled. This information will be used to validate that the DI meets the 200 bundle per week eligibility requirement. The DI must provide the completed template to the Federal Reserve Bank via email prior to the physical site inspection.

> Customer Action:

- Comply with the Site Security Self-Evaluation as outlined in the CI Application Form and Agreement. If the DI is not in compliance, all exceptions must be fully explained
- Provide two or more internet-connected PCs at the vault where the DI anticipates holding the CI
- Have the ability to provide daily customer payments information in \$10 and \$20 denominations for the vault where the CI inventory will be held

- STEP 7:

Assuming the DI passes steps 5 and 6, the servicing Federal Reserve Bank will notify the DI that its CI application has been accepted and provide the information necessary to plan for the implementation of the CI at the chosen location.

> Customer Action:

- No action required by the DI

- STEP 8:

The servicing Federal Reserve Bank will work with the DI to ensure that the appropriate people within the organization are trained on the use of the CI MOP and the CI via FedLine Web® Solution. CI via FedLine Web is the Federal Reserve Bank's web-based vault inventory control system used to record and track all CI transactions. The servicing Federal Reserve Bank will also work with the DI to schedule a "go live" date for the CI. The CCC will contact the DI regarding the CI via FedLine Web setup.

> Customer Action:

- Have one or more individuals signed up as End User Authorization Contacts (EUACs) that are authorized to set up CI via FedLine Web for users with an American Bankers Association (ABA) number (or Customer Identification Number (CIN) for subcontracted CIs) under which the CI will be conducting business
- Check out the FedCash Services eLearning tool

- STEP 9:

Go live! A representative from the servicing Federal Reserve Bank will be on site at the CI for technical support on this day.

Please Note:

CI Application Forms and Agreements will be processed in the order received. A DI must submit a separate application for each CI site

At any point during this process, DI representatives may contact the local Federal Reserve Cash contacts or email the National Cash Product Office (CPO) at cpo.sf@sf.frb.org to determine the status of the application

Application Process Flow

Step 1: DI obtains CI Application Form and Agreement

Step 2: DI ensures appropriate OAL is on file with the Federal Reserve

Step 3: DI submits the CI Application Form and Agreement to the CCC

Step 4: Federal Reserve performs completeness review of the submitted CI Application Form and Agreement

Step 5: Federal Reserve will conduct a financial safety and soundness review

Step 6: Federal Reserve will schedule on-site inspection

Step 7: If a DI passes steps 5 and 6, the DI is notified by the servicing Federal Reserve Bank that it has been accepted into the CI Program

Step 8: Federal Reserve will provide CI training to potential CI operators

Step 9: "Go live" date. A representative from the servicing Federal Reserve Bank is on-site to assist with implementation

CI MOP Training

The servicing Federal Reserve Bank will coordinate training for CI management and staff on the MOP to ensure that CI operators are fully knowledgeable about the policy and procedural expectations of the CI Program. This training will include introducing CI operators to the various exhibits of the MOP. The training session takes approximately four hours to complete and is usually held at the CI site.

What a CI Participant Can Expect

Once an institution has established a CI, the servicing Federal Reserve Bank will monitor the daily deposits to and withdrawals from the CI and will also periodically perform unannounced site reviews to verify compliance with the CI program requirements, including volume thresholds, minimum holdings and inventory cap requirements. Institutions must agree to allow full access by Federal Reserve Banks, the Board of Governors, the Government Accountability Office, and their agents for unannounced audits of any aspect of the CI operation.

A CI site must report its vault holdings and payments to its customers on a daily basis through CI via FedLine Web. Payments to customers are defined as payments by the CI site to the institution's cash customers, including commercial customers (change order), correspondent banks and/or branches, the institution's own branch network and/or the ATM network, but excluding deposits to the Federal Reserve.

A CI site is responsible for completing a monthly unannounced management inventory to ensure that actual CI vault inventory matches the volume inventory reported in CI via FedLine Web. This monthly inventory verification must be completed electronically through CI via FedLine Web. In addition to this monthly process, the CI must complete an annual certification of the CI MOP. The CI must certify that (a) the institution is in compliance with all requirements of the MOP and Appendix 1 (CI Program) of Operating Circular 2; and (b) the institution has attached or previously provided to the servicing Federal Reserve Bank the summary of the results of internal and external audits as they pertain to the CI Program.

Implementation Resources

CI Application Form and Agreement/Policy Details:

<https://www.frb services.org/resources/financial-services/cash/currency-recirculation-policy/custodial-inventory-program.html>

OAL Form:

<https://www.frb services.org/forms/accounting/index.html>

EUAC Form:

<https://www.frb services.org/forms/fedline-solutions/index.html>

E-Alert Subscription:

<https://www.frb services.org/news/e-alerts.html>

Submit CI Application Form and Agreement to:

Customer Contact Center (CCC)
P.O. Box 219416 Kansas City, MO 64121
or via fax to: (800) 660-785
Cash Product Office

cpo.sf@sf.frb.org

Local Federal Reserve Bank Cash Contacts:

<https://www.frb services.org/contacts/index.jsp>

Advantages of Federal Reserve Financial Services

As the nation's central bank, the Federal Reserve continues to play a vital role in offering cash services to depository institutions. Our core mission is to maintain confidence in U.S. Currency through well-controlled operations that meet the needs of the marketplace on a daily basis as well as in times of stress while considering the societal costs of policies and practices. Through our Reserve Banks, we ensure local financial institutions have ready access to currency (cash and coin) to meet public demand

Where Can I Get More Information?

For more information, please review the [Recirculation Policy FAQs](#). In addition, you can [sign up for E-Alerts](#) to receive information updates regarding the Currency Recirculation Policy and the Custodial Inventory Program.